U.S. Department of Housing and Urban Development
Pacific/Hawaii
Office of Inspector General for Audit
450 Golden Gate Avenue, P.O. Box 36003
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December 12, 1985

Audit Related Memorandum
96-SF-163-0802

MEMO FOR: Keith Surber, Director of Contracting, 8AAC

FROM: Mark Pierce, Senior Auditor, 9AGA

SUBJECT: Nationwide Real Estate Inspectors Service & Kollerbohm Associates
Contract to Inspect Multifamily Properties
New York, New York & Oakland, California

We reviewed the termination of HUD's contract with Nationwide Real Estate Inspectors Service (Nationwide). We began the review because of an allegation that the termination was not proper. We concluded that Nationwide did not comply with the terms of the contract and that termination was appropriate. Further, we believe that HUD should take additional action to protect its interests.

BACKGROUND

In June 1994 HUD entered into contract #HO9C4024700000 with Nationwide Real Estate Inspectors Service, headquartered in New York City, New York, to perform pre-foreclosure inspections of certain multifamily properties which were HUD insured or received HUD assistance. The estimated value of the contract was $32,136, with the amount to be paid based on the actual number of units inspected. The purpose of the inspections was to determine whether the properties were in acceptable physical condition in accordance with HUD regulations. The contract was broken into five geographic components (called base bid items) under the jurisdiction of four field offices: Los Angeles, San Francisco, Las Vegas, and Hawaii. There was a separate work order for each component.

Fred Kollerbohm of Kollerbohm Associates, Consulting Engineers located in Oakland, California represented Nationwide in all negotiations and was responsible for providing the contracted services. Kollerbohm hired subcontractors to do the inspections.

In February and March 1995, HUD paid Nationwide $5,901.49 for Los Angeles area inspections. A contracting officer said that HUD employees in Los Angeles were not happy with the inspections, but failed to report their dissatisfaction prior to payment. The Government Technical Representatives (GTRs) for the San Francisco, Las Vegas, and Hawaii field offices, however, did report that Nationwide's work failed to meet contract requirements and that Nationwide submitted reports and billed HUD for unit inspections that were not done. The GTRs offered Nationwide opportunities to correct deficiencies but the results still did not meet HUD's requirements. HUD terminated the Las Vegas contract component in February, the San Francisco component in March, and the Hawaii component in April of 1995. Although the contracting office had documented sufficient grounds to terminate the contract for default (49 CFR 49.4), it chose to terminate the contract for the convenience of the government (49 CFR 49.5). Both contracting personnel and HUD counsel advised us that this is common practice because a termination for convenience is procedurally less work intensive.

PURPOSE AND METHODOLOGY

We reviewed HUD's termination of its contract with Nationwide because of allegations that the termination was not proper. Our objective was to determine whether HUD had adequate basis to terminate the contract and not pay for all billed inspections.

To accomplish this objective we reviewed applicable regulations, interviewed Nationwide's representative and an inspector and HUD personnel in the contracting office and multifamily asset management branch offices. We also reviewed the contracting office file[1] for Nationwide and the Las Vegas and San Francisco field office files. In addition to the contract bid and award documents, the files contained correspondence and records of meetings between HUD and Nationwide's representative, between the contracting and field offices, and between the field offices and apartment managers. The files also contained inspection reports submitted by Nationwide. We also discussed the circumstances of the contract termination with legal counsel at HUD's California State Office.

Our review generally covered the period of October of 1994 through April of 1995. The review excluded the Los Angeles component of the contract because that portion was not terminated.

RESULTS

We concluded that HUD was justified in terminating the contract because Nationwide did not fulfil the contract terms. Documentary evidence confirmed the contract deficiencies reported by HUD staff: Nationwide billed HUD for units that were not inspected, and inspection reports were not accurate or complete. Correspondence between HUD and Nationwide also showed that Nationwide did not remedy the deficiencies, although HUD gave it opportunities to do so.

Nationwide Billed HUD for Units That Were Not Inspected

Both the Las Vegas and San Francisco HUD offices reported that Nationwide billed HUD for units that were not inspected. The inspectors did not complete all required inspections because Nationwide did not adequately schedule them. Apartment managers were not given advance notice in time to make arrangements with tenants or not given any advance notice. Also, it did not allow adequate time to inspect each project.

One inspector under subcontract with Nationwide, who inspected projects in the San Francisco, Las Vegas and Hawaii jurisdictions, admitted to claiming more units than he actually inspected. He explained that Nationwide failed to notify many of the apartment managers prior to the inspections. As a result, the managers did not notify tenants and could not allow access to occupied units. The inspector, who was also to be paid based on the number of units inspected, believed he was justified in charging for the units because he was not responsible for the notification.

Another inspector, whom Nationwide hired to inspect projects in Hawaii, called HUD to say he had quit after visiting six projects. He quit because he realized that he could not "honestly do a credible job" in the time Nationwide allotted in the schedule.

In separate meetings, we asked Nationwide's representative and one inspector to estimate the time required to complete a project inspection under the contract. They both estimated lengths of time greater than the time scheduled for the Las Vegas inspections.

For the Las Vegas field office component of the contract, the field office determined that the inspector only inspected 138 units out of 357 that Nationwide billed HUD. The field office based this on

[1](which included documentation showing inadequate inspections for the Hawaii, San Francisco, and Las Vegas offices)

telephone calls and letters from apartment managers. We reviewed six letters from managers and corresponding inspection reports which confirmed the field office's conclusion.

The San Francisco field office also reported that Nationwide billed for units not inspected. Five letters from apartment managers described similar situations to those reported in Las Vegas.

- Nationwide billed HUD for inspecting 11 units. The inspector arrived at the project after office hours, three days before the scheduled inspection, and asked the janitor to open a vacant unit so he could "peek" in. The inspector was on site no more than 15 minutes.

- Nationwide billed HUD for inspecting 10 units. The inspector arrived at the project with no prior notice and inspected two units. The inspector was on site for 30 minutes.

- Nationwide billed HUD for inspecting 10 units. The inspection was scheduled for October 14. The inspector called the apartment manager the day before the scheduled inspection to ask how many units the project had and how many were vacant. The inspector never visited the site.

- Nationwide billed HUD for inspecting 4 units. The inspector arrived at the project an hour early, looked at one occupied unit, walked around the grounds, and left before the property supervisor arrived at the scheduled time.

- Nationwide billed HUD for inspecting 7 units. Although Nationwide had made an appointment to inspect the project, the inspector never showed up.

Inspection Reports Were Incomplete

All three of the offices that rejected Nationwide's inspections said that the reports were incomplete. The omissions ranged from minor (such as the projects' FHA numbers and owners' names) to substantive (such as estimating the remaining useful lives of major components). When we discussed this with Nationwide's representative, he agreed that the reports omitted the information. Although he did not explain the reason for the omissions, he said HUD paid for the Los Angeles inspections, which contained the same omissions. Therefore, he assumed (incorrectly) that HUD had changed the contract requirements.

We reviewed 11 inspection reports that Nationwide submitted to the Las Vegas and San Francisco HUD offices, and found the following omissions.

- All of the reports stated that major physical improvements were made during the past year and major physical improvements were planned, but **none** of the reports described the improvements, as required.

- The owners' names were missing from 7 of 11 reports.

- The FHA number was missing from all 11 reports.

- None of the reports included an estimate of "...the useful life of appliances, roofs, floors, hot water heaters, etc."

- Three reports did not show whether repairs required by HUD were complete.

Although we did not review the inspection reports submitted to the Hawaii office, that office also complained that reports were incomplete. HUD staff in Hawaii noted that none of the inspection reports provided the estimated useful life of appliances, roofs and other items. They also noted that, for 44 reports submitted, 18 percent were missing information from Part A, and 6 percent did not include necessary comments in Part E (descriptions of maintenance needed, major physical improvements made during the year, and major physical improvements planned).

Reports Were Not Accurate

The HUD offices reported that Nationwide's inspection reports failed to disclose deficiencies known to HUD. Five of the inspection reports submitted to the Hawaii office made no mention of known deficiencies including the need for a new roof, damaged exterior walls, and an inoperative hot water system. The HUD offices also complained that most of the inspection reports were identical, disclosed no deficiencies, and rated the projects as "superior." In addition, the Hawaii office said that the narrative descriptions of the projects were inaccurate in 12 out of 44 cases. Inaccuracies included the number of buildings, number of stories, and number of bedrooms.

HUD Offered Nationwide Opportunities To Correct Deficiencies

Starting as early as October of 1994 and continuing into March of 1995, HUD offered Nationwide opportunities to correct deficiencies. HUD's efforts consisted of "cure" or "deficiency" letters and conferences. The contractor's efforts to correct deficiencies, however, were not complete, and were fraught with the same problems as the initial work, including failure to review HUD files to obtain copies of prior inspections and information on reserve for replacement releases before inspecting the properties.

RECOMMENDATION

Thus, we concluded that HUD was justified in refusing to compensate the contractor for the inadequate inspections and to terminate the contract. However, we believe that HUD's termination of the contract for convenience is not sufficient to protect HUD's interests. The termination does not compensate HUD for its losses such as the burden of extraordinary costs to administer the contract and the lack of timely and useful inspections, nor does it prevent the contractor from receiving future contracts with HUD.

Therefore, we recommend you pursue legal and administrative remedies to recover losses to HUD and to prevent future contracts with Nationwide Real Estate Inspectors Service and its agent, Fred Kollerbohm.

Within 60 days, please provide us a status report on (1) the corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is not considered necessary. Also, please furnish us with copies of any correspondence or directives issued related to the review.

Please advise if we can be of further assistance in this matter. If you or your staff have any questions, please contact Auditor Sadie Cooper at (415) 436-8101.

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